




Investor Network on
CLIMATE RISK
a project of **Ceres**



Investor Network on Climate Risk

**Year in Review
2015-2016**

■ ABOUT THE INVESTOR NETWORK ON CLIMATE RISK

The Investor Network on Climate Risk (INCR) sits at the intersection of sustainable investment and business. INCR is a network of 120 institutional investors with total assets under management of over \$14 trillion. The network provides leadership on investment practices, corporate engagements, policy advocacy, and supports investor education and collaboration on climate and sustainability risks and opportunities. INCR's long term goal is to mobilize leading North American investors to integrate sustainability into investment decision-making, corporate practices and public policy, thereby improving environmental, social, and financial outcomes. INCR encourages collaboration and leadership through engagement opportunities such as working groups, investor statements, sign-on letters, webinars, cutting-edge reports, and the Investor Summit on Climate Risk at the United Nations.

INCR is coordinated by Ceres, a non-profit organization that is mobilizing many of the world's largest investors and companies to take stronger action on climate change, water scarcity and other global sustainability challenges. Ceres also engages with 100-plus companies, many of them Fortune 500 firms, committed to sustainable business practices and the urgency for strong climate and clean energy policies. For more information, visit www.ceres.org or follow on Twitter [@CeresNews](https://twitter.com/CeresNews).

■ INVESTOR PROGRAM STAFF CONTACT LIST

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■ NEW MEMBERS JOIN THE NETWORK

Since the last INCR Annual Meeting, nine new members have joined the network:

1. **San Francisco Employees' Retirement System**
2. **Brown Advisory**
3. **Seventh Generation Interfaith Coalition for Responsible Investment**
4. **Reynders, McVeigh Capital Management**
5. **Double Time Capital**
6. **The John Merck Fund**
7. **University of Washington**
8. **Manulife Asset Management**
9. **United Nations Joint Staff Pension Fund**



■ INTRODUCTION

Letter from Chris Davis, Senior Program Director, Investor Programs, Ceres

Dear INCR members:

Thank you for your participation in the Investor Network on Climate Risk and for all you have done to advance sustainable investment strategies and practices. We were pleased to welcome 9 new INCR members since the last INCR Annual Meeting, contributing to the strength and diversity of the network.

With the active engagement and support of INCR members, we accomplished much together over the past year. By integrating material environmental, social and governance risks and opportunities into your investment practices, corporate engagements and policy advocacy, INCR members have made the world a better place to live and to invest.

2015 was a big year for climate change and other key ESG issues. In collaboration with our international partners in the Global Investor Coalition on Climate Change, we brought investor voices, leadership and commitments to the Paris climate negotiations, which culminated in a historic global agreement. Our 2016 Investor Summit on Climate Risk, with record attendance and unprecedented participation by international investment leaders, confirmed that climate change is now a mainstream investment issue and that clean energy investment presents increasing opportunities. 2015 also saw the World Federation of Exchanges issue ESG reporting guidance to its member stock exchanges, huge progress on proxy access, the appointment of the Financial Stability Board's Task Force on Climate Disclosure, important guidance from the U.S. Dept. of Labor on ESG issues and fiduciary duty, and the filing of a record number of shareholder proposals by INCR members on climate-related issues.

But we know that there is more work ahead. Climate change continues to accelerate, many ESG risks remain unaddressed, and our efforts in 2016 must confront these and other issues in the context of challenging global markets. With 120 members managing over \$14 trillion, INCR is a powerful investor voice for sustainable business and investment practices and government policies. In the coming year we are looking forward to progress on multiple fronts, through our working groups, collaborations, advocacy and implementation of best practices.

Solving climate change, bridging the clean energy investment gap and building sustainable capital markets requires the long-term commitment of leading institutional investors. My colleagues and I look forward to working with your organizations on these issues and to help you achieve your sustainable investment goals in the coming year.

A handwritten signature in dark ink, appearing to read "CDavis".

Chris Davis

■ 2015-2016 WORKING GROUPS UPDATE

INCR Working Groups offer members the opportunity to share information on key sustainable investment issues, develop strategies and best practices, and advocate for strong management of ESG issues. INCR members are encouraged to join, and if you are interested, please contact Rachel Fricke at fricke@ceres.org. The following gives a brief update of each working group's activities in 2015 and 2016.

CARBON ASSET RISK WORKING GROUP

— **Staff Contact: Shanna Cleveland, Senior Manager, Oil & Gas**

The Carbon Asset Risk Working Group has been hard at work with many groundbreaking successes in the past year. ConocoPhillips announced that it is now testing its business plans against multiple 2 degree scenarios as a result of investor engagement, and BHP Billiton released a 2 degree analysis as well. Many members continued engaging with Shell, BP and Statoil to ensure that the successful portfolio resilience resolutions that they co-filed or supported will produce meaningful advances on climate disclosures. Successes at these companies built momentum for continued progress in the U.S. This year investors have filed 27 CAR resolutions including 9 resolutions calling on companies, including Exxon and Chevron, to stress test their strategies against a 2 degree future. Many members also continue to engage fossil fuel companies through the proxy access resolutions led by the NYC Comptroller.

SHAREHOLDER INITIATIVE ON CLIMATE AND SUSTAINABILITY (SICS)

— **Staff Contact: Rob Berridge, Director, Shareholder Engagement**

The Shareholder Initiative on Climate and Sustainability (SICS) is tracking 172 climate-related shareholder resolutions filed by INCR members this year compared to 167 last proxy season. 50 resolutions have been withdrawn so far in exchange for company commitments. Last year there were 37 successful withdrawals. Proxy access resolutions filed by New York City with fossil fuel companies are leading the way with 14 commitments compared to 1 last year. The next highest numbers of agreements are 7 for utility business model resolutions, followed by 4 each for GHG reduction goals, renewable energy sourcing goals, and lobbying disclosure. To see all the resolutions and their status, visit www.ceres.org/resolutions.

INVESTOR INITIATIVE FOR SUSTAINABLE EXCHANGES (IISE)

— **Staff Contact: Tracey Rembert, Director, IISE**

After several years of investor engagement with stock exchanges, creation of an ESG-focused sustainability working group within the World Federation of Exchanges (WFE), and 18 months of work by that group since its launch, the WFE released Sustainability Reporting Guidance for its 68 member exchanges last November, including 33 key performance indicators on environmental and social matters. Ceres' IISE has led a global comment period to collect feedback from investors on that guidance. We are compiling a summary report of those comments to submit to the WFE in the late spring. We will also be releasing a report this year "mapping" the *Investor Listing Standards Proposal* against four key sustainability reporting frameworks, for the WFE's consideration. Additionally, over 20 exchanges have recently committed to producing sustainability reporting guidance for their markets during 2016.

INVESTOR WATER HUB

— **Staff Contact: Monika Freyman, CFA, Director and Siobhan Collins, Manager, Water Program**

Since The Investor Water Hub's inception in March 2015, the working group has been undertaking activities to help drive greater consideration of water in investment decision-making. The group, just shy of 100 members and governed by a global Advisory Committee of investors, offers peer-to-peer sharing of leading ESG and water integration and engagement practices. It also serves as a collective action forum dedicated to developing more effective research methods to assess water risks and opportunities. The Hub is working towards the development of an "Investor Water Integration Toolkit"—a publicly available framework that mainstream managers can use to more comprehensively assess water risks across asset classes. Other collective projects include mapping the water solutions landscape and developing water footprinting methods. For more information visit: www.ceres.org/issues/water/water-and-esg-risk.

POLICY WORKING GROUP

— **Staff Contact: Ryan Martel, Senior Manager, Policy Program**

Since last year, the Policy Working Group (PWG) has focused its attention and advocacy on three federal policies on which we have seen successful outcomes—the EPA issued a strengthened final Clean Power Plan rule, there was a bipartisan repeal of anti-Green Climate Fund language, and there was a long-term extension and phase down of tax incentives for wind and solar over 5-plus years. At the state level, the PWG continued to support strong clean energy and efficiency policies in our priority states of NC, OH, MN, and MI. Going forward, the PWG will continue its focus on these issues, but will also begin to build a foundation for advocating for an economy-wide price on carbon and associated policy structures, such as ensuring a just transition for affected industries and regions of the country.

FAMILY OFFICES AND FAMILY FOUNDATIONS INITIATIVE WORKING GROUP

— **Staff Contact: Lindsey White, Senior Manager, Strategic Partnerships**

Since its launch, the Family Offices and Foundations Initiative has focused on providing national programming and peer-to-peer learning opportunities for family offices and foundations, with an emphasis on navigating climate risk and on investing for positive climate and environmental impact. The most recent event was an all-day symposium for family offices and foundations, convened in Boston directly prior to the 2016 Ceres Conference. In addition, several of the fifteen family office and foundation members participated in the White House Clean Energy Investment Summit in June 2015, at which the Obama Administration announced more than \$4 billion in private sector commitments and executive actions to scale up investment in clean energy.

GREEN BONDS WORKING GROUP

— **Staff Contact: Peter Ellsworth, Director, Investor Relations**

The green bonds working group has examined and provided input on developments critical to the orderly and credible growth of this market, including emerging standards for reporting to investors the climate and other environmental impacts that green financings have achieved; standards, such as one developed by Moody's, for evaluating the integrity of project selection and overall transparency; and the challenges for aggregation of smaller projects and securitization of asset backed structures in non-OECD countries. Several of these initiatives were explored in webinars and other forums.

■ PUBLICATIONS & KEY HIGHLIGHTS

21st Century Engagement: Investor Strategies for Incorporating ESG Considerations into Corporate Interactions — *May 2015*

Ceres, in collaboration with BlackRock, published a guide for U.S. institutional investors on engaging with companies and policymakers on sustainability issues and includes tactics and case studies from 37 engagement experts spanning six countries. Showcasing dozens of real-world examples of investor engagement with companies, contributors cover issues like setting ESG standards in the marketplace, public policy engagement, collaboration, shareholder resolutions, board of director engagement, strategies for international engagements, and other topics. The guide also features a set of ESG-themed questions that portfolio managers and analysts should be asking of companies in key sectors.

2016 INCR Meeting and Investor Summit on Climate Risk: Advancing the Clean Trillion — *January 2016*

On January 26, over 150 INCR members and guests met at Bloomberg headquarters in New York City. The meeting featured a panel on how new Department of Labor Guidance impacts fiduciary duty regarding ESG issues as well as a panel about factors that investors consider important in corporate reporting on material climate risk. Breakout discussions followed regarding climate-related investment strategies.

On January 27, the 2016 Investor Summit on Climate Risk was the first major event on climate change for investors and financial institutions to discuss the far-reaching implications of the Paris Agreement. Ceres, the United Nations Foundation, and the United Nations Office for Partnerships co-hosted the Summit at the United Nations. The Summit explored the significant investment opportunities provided by the global climate deal involving 196 countries, with a focus on the types of capital flows necessary—involving many trillions of dollars—to achieve its ambitious global carbon-reducing goals; expanding opportunities to expand clean energy investment in developed and developing countries; and solutions to mitigating carbon asset risks, including portfolio de-carbonization and engagement with companies on carbon asset risk and energy transition strategies.

Securities and Exchange Commission Disclosure Search Tool — February 2016

A search tool launched by Ceres and CookESG Research enables users to find whether disclosures in annual SEC filings discuss climate and carbon asset risks, including competition from renewable sources of energy, capital expenditures on high cost, carbon intensive exploration projects, government efforts to limit carbon emissions, and the possibility of reduced global demand for fossil fuels. It will also enable users to access to climate, water, and hydraulic fracturing risk disclosures as well as a watch list feature that allows users to track a custom list of companies. The ease of access to these disclosures will enable investors to have a more complete understanding of the risks faced by companies they invest in and the quality of their environmental disclosures. To access this tool, visit www.ceres.org/secsearchtool.

THE ROAD AHEAD:

Our Plans for 2016 and Beyond

Much work remains to be done to address the investment risks and opportunities resulting from climate change, to integrate environmental, social, and related governance factors into investment practice, and to build sustainable global capital markets. Toward these ends, we look forward to working with our members on the following key projects and new initiatives, among others:

- ☑ Moving energy companies to incorporate carbon asset risks and energy transition strategies into their business plans and disclosures
- ☑ Raising the profile of climate risk as a material business and investment risk
- ☑ Supporting increased low carbon, clean energy investments by INCR members, and initiating a clean energy investment working group
- ☑ Implementing listing standards or guidance by major stock exchanges for ESG reporting
- ☑ Achieving increased results from shareholder activism and corporate engagement on climate and sustainability issues
- ☑ Driving better climate risk disclosure by companies in key sectors and better enforcement of disclosure requirements by the SEC
- ☑ Engaging companies on sustainable sourcing of key agricultural commodities and eliminating deforestation from their supply chains
- ☑ Continuing to integrate water risks into investment analysis and decision making



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